

TO: South Carolina Taxation Realignment Commission

FROM: Manufactured Housing Institute of South Carolina

Memorandum in Support of SC Sales Tax on Manufactured Homes

The sales tax on manufactured homes was originally designed to be equitable with site-built homes, which do not pay any sales tax at the point of purchase by the consumer. Also, the tax on manufactured homes in the statute is in fact a base, because any add-ons to the home, such as installation material, septic tank, Heating and Air units, decks, steps, appliances, etc. are taxed at the point of purchase by the retailer/installer. Manufactured homes also pay sales tax at each subsequent resale.

Nine years ago, the legislature decided that it was in the interest of the state to encourage the purchase of energy efficient manufactured homes. Although some manufactured homes being sold were energy efficient, these only totaled about 5% of homes sold in the state. Many of the other homes that were not energy efficient resulted in very high electric usage and corresponding high utility bills for the owner. The new sales tax formula on energy efficient homes would be \$300 in sales tax, although any add-on materials would continue to be taxed as before.

Two years ago, the legislature added to the incentives for energy efficiency by putting in a further incentive for purchasing "energy star" certified homes. These homes are even more efficient than the homes that meet the other sales tax incentive. This program just went into effect this summer, and we are hopeful that it will meet with great success. The initial version of that bill would not have kept the \$300 incentive, but after substantial discussion, the legislature decided to keep the \$300 program as well.

If you look at the current manufactured housing sales tax formula through the lens of the three TRAC criteria, the formula holds up well.

Regarding the criteria of adequacy, our sales tax formula is very similar to North Carolina, although they do not have different levels for energy efficiency.

It meets the Equity criteria in that it mimics the way site-built homes are taxed during the construction phase. Also, Manufactured homes are one of the primary sources of affordable housing in our state, and raising taxes on lower-income people generally has a harsher effect on them than on the more well-to-do. Every increase in the price of a home results in some people who now can't afford their own home. This, combined with the worst recession in sixty years, makes this a bad time to raise taxes on the basic need of shelter.

The tax has been very successful under the criteria of Efficiency. It has successfully incentivized consumers to purchase energy efficient homes, which furthers the state's goal of energy conservation. While sales of energy efficient homes are now a majority, there is still a ways to go, and that justifies keeping the current structure.

Finally, the revenue generated would not justify the impact on the consumer. The industry expects to sell 1500 homes this year. At an average value of \$50,000 per home, taxed at a full 7%, that would yield only \$5.2 million.

Why the SC Sales Tax System for Manufactured Homes Benefits Everyone

- Equality with Site-Built homes: site-built homes in SC do not pay sales tax. Rather, the materials are taxed at the point of purchase by the builder and labor is not taxed.
- Sales Tax is a Base, Not a Cap: This amount is only on the home itself. Installation materials, furniture, add-ons such as decks, etc., are taxed at the standard SC sales tax rate which is paid upon purchase by the installer or retailer.
- Encourages Energy Efficiency: in the old days, someone living in a manufactured home may have paid considerably higher rates for electricity. The SC sales tax has been a great success at encouraging consumers to buy homes that use less power. The SC Public Utilities Review Commission has said that SC is in danger of having to buy power from other states in the future and energy conservation is one of the highest priorities for the state. Using less power is also good for the environment.
- Affordable Housing: manufactured homes are one of the few sources for truly affordable housing in SC. Raising taxes on manufactured homes will push the dream of home ownership beyond the grasp of many SC residents.
- Economic Circumstances: raising taxes in the middle of the worst recession in 60 years doesn't make good policy. The housing business and consumers have been particularly hard-hit, and raising taxes will cause significant harm to them.
- Impact on Consumer not Justified by Revenue Generated: Even if taxes were raised to a full 7% on the entire price of a manufactured home, the revenue generated would not justify the financial impact on the consumer—the industry is on track to sell 1500 new homes in SC this year; with an estimated average cost of \$50,000 taxed at 7%, such a regressive tax on affordable housing would only raise \$5.2 million.

Dear Chairman Maybank and Commissioners,

The Electric Cooperatives of South Carolina understand that the task of dissecting a tax code is a difficult one and we appreciate your willingness to undertake it. I am writing you today to express our belief that energy conservation is of great importance to all South Carolinians as we transition into a carbon constrained world. In these uncertain times, it is much easier, and less expensive, to conserve energy than to generate more power to meet increasing demand. However, conservation rarely occurs without incentive.

The current sales tax formula on manufactured homes recognizes the importance of energy conservation and efficiency and incents purchasers of manufactured homes to choose the most energy efficient models available. It reflects policy decisions by the legislature to encourage the purchase of energy efficient manufactured homes and it has paid dividends not only in the quality of the stock purchased by South Carolina consumers, but also in the quality of the products offered in South Carolina by manufacturers.

As a targeted incentive to achieve policy objectives, we believe the current sales tax on manufactured homes works, and that it should be continued. Thank you for your consideration and for the time you are taking for these important deliberations.

Sincerely,

Mike Couick

President and CEO

The Electric Cooperatives of South Carolina, Inc.